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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,
Petitioner,
v.

DONALD L. SNELLMAN d/b/a NORFIN,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Preston Moore
Counsel of Record
Tamu K. Sudduth
Morrison & Foerster
345 California Street
San Francisco, CA 94104-2675
(415) 434-7000

Gerald W. Griffin
Cooper & Dunham
30 Rockefeller Plaza
New York, New York 10112
(212) 977-9550

Counsel for Petitioner
Ricoh Company, Ltd.

Of Counsel:

Arthur I. Neustadt
Richard D. Kelly
Oblon, Spivak, McClelland,
Maier & Neustadt, P.C.
1755 Jefferson Davis Hwy.
Arlington, VA 22202
(703) 521-5940

QUESTION PRESENTED

Whether, under 35 U.S.C. § 284, compensatory "reasonable royalty" damages for nonwillful patent infringement may be extended beyond the "use made of the invention by the infringer" to permit recovery for projected sales that were never made.

RULE 28.1 LIST

Petitioner Ricoh Company, Ltd. has no parent company. Its subsidiaries (other than those which are wholly owned) and affiliates include:

Hokkaido Ricoh Co., Ltd.
Aomori Ricoh Co., Ltd.
Yamagata Ricoh Hanbai Co., Ltd.
Iwate Ricoh Co., Ltd.
Fukushima Ricoh Co., Ltd.
Niigata Ricoh Co., Ltd.
Nagano Ricoh Co., Ltd.
Tochigi Ricoh Co., Ltd.
Saitama Ricoh Co., Ltd.
Gumma Ricoh Co., Ltd.
Ibaraki Ricoh Co., Ltd.
Yamanashi Ricoh Co., Ltd.
Chiba Ricoh Co., Ltd.
Nishi-Tokyo Ricoh Co., Ltd.
Higashi-Shizuoka Ricoh Co., Ltd.
Shizuoka Ricoh Co., Ltd.
Ishikawa Ricoh Co., Ltd.
Fukui Ricoh Co., Ltd.
Mie Ricoh Co., Ltd.
Higashi-aichi Ricoh Co., Ltd.
Osaka Ricoh Co., Ltd.
Shikoku Ricoh Co., Ltd.
Kyoto Ricoh Co., Ltd.
Wakayama Ricoh Co., Ltd.
Shiga Ricoh Co., Ltd.
Nara Ricoh Co., Ltd.
Okayama Ricoh Co., Ltd.
Hiroshima Ricoh Co., Ltd.
Yamaguchi Ricoh Co., Ltd.
Tottori Ricoh Co., Ltd.

Shimane Ricoh Co., Ltd.
Kita-Kyushu Ricoh Co., Ltd.
Fukuoka Ricoh Co., Ltd.
Saga Ricoh Co., Ltd.
Nagasaki Ricoh Co., Ltd.
Kumamoto Ricoh Co., Ltd.
Oita Ricoh Co., Ltd.
Miyazaki Ricoh Co., Ltd.
Okinawa Ricoh Co., Ltd.
Sapporo Information System Co., Ltd.
Ricoh Information System Co., Ltd. (Tohoku)
Ricoh Information System Co., Ltd. (Kanto)
Ricoh Information System Co., Ltd. (Tokyo)
Ricoh Information System Co., Ltd. (Chubu)
Ricoh Information System Co., Ltd. (Osaka)
Ricoh Information System Co., Ltd. (Hiroshima)
Ricoh Information System Co., Ltd. (Fukuoka)
Ricoh Tecnonet Co., Ltd. (Tokyo)
Ricoh Tecnonet Co., Ltd. (Osaka)
Parts Component System Co., Ltd.
Sogo Kenkyu-sho Co., Ltd.
Ryoko Computer system Co., Ltd.
Ricoh Teletech Co., Ltd.
Ricoh System Kaihatsu Co., Ltd.
Tera Co., Ltd.
Sun-Synapse Co., Ltd.
Publinix Co., Ltd.
Japan M.E.T.
Japan Unisoft Co., Ltd.
Hasama Ricoh Co., Ltd.
Tohoku Ricoh Co., Ltd.
Ricoh Oyo Denshi Kenkyu-sho Co., Ltd.
Ricoh Denshi Kogyo Co., Ltd.
Ricoh Elemex Co. Ltd.
Ticoh Techno Research Co., Ltd.
Ricoh Tottori Gijutsu Kaihatsu Co., Ltd.

AT&T Ricoh Co., Ltd.
Ricoh Logistics Co., Ltd.
San-ai Fudosan Co., Ltd.
San-ai Kanko Co., Ltd.
Ricoh Lease Co., Ltd.
Ricoh Seiki Co., Ltd.
Kita-Kyushu Coca-Cola Bottling Co., Ltd.
Ricoh Micro Shashin Co., Ltd.
Ricoh General Service Co., Ltd.
Ricoh International Systems Co., Ltd.
Ricoh Engineering Co., Ltd.
Soiku Co., Ltd.
Nippon Mitek Co., Ltd.
Ricoh Kyoiku Kiki Co., Ltd.
System Ito Co., Ltd.
Ricoh Business Machines Co., Ltd.
Ricoh Australia Pty., Ltd.

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IN THE
SUPREME COURT OF THE UNITED STATES

October Term, 1988

No. ____

RICOH COMPANY, LTD.,

Petitioner

v.

DONALD L. SNELLMAN d/b/a NORFIN,

Respondent.

PETITION FOR A WRIT OF CERTIORARI

Petitioner, Ricoh Company, Ltd., respectfully prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Federal Circuit entered November 25, 1988, in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 862 F.2d 283. It is reprinted in the appendix at page 25a with an announcement of the entry of the judgment.

The order of the United States District Court for the Northern District of California entering final judgment is unreported, as are the order granting partial JNOV and granting new trial on the issue of damages, the order limiting damages to actual sales, and the order limiting plaintiff's proof of damages at trial, upon all of which the order entering final judgment was based. The judgment is reprinted in the appendix at page 23a; the orders are reprinted in the appendix at pages 2a, 11a and 15a, respectively.

Three prior opinions of the Court of Appeals for the Federal Circuit deciding interlocutory appeals concerning contractual issues in this case are reprinted in the appendix at pages 7a, 9a, and 20a, respectively. The jury's answers to special interrogatories at the trial are reprinted in the appendix at page 1a.

JURISDICTION

The judgment of the Court of Appeals for the Federal Circuit was entered November 25, 1988. Rehearing was denied by the Federal Circuit in an order dated February 2, 1989. App. at 42a. Rehearing *in banc* was declined with the notation that Judge Nies would rehear the case *in banc*. App. at 44a.

The jurisdiction of this Court to review the decision of the Federal Circuit is invoked under 28 U.S.C. § 1254(1).

STATUTE INVOLVED

35 U.S.C. § 284, Damages:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

STATEMENT OF THE CASE

The jurisdiction of the District Court in this case was invoked under 28 U.S.C. § 1332 (diversity of citizenship) and § 1338(a) (patent cases).

In this case, the Federal Circuit has approved an award of damages for nonwillful infringement based on extensive projected sales that never occurred, resulting in a "reasonable royalty" of over 400% of the total revenues realized by petitioner on sales of the infringing device. Petitioner seeks this writ of certiorari to clarify that damages for patent infringement must be based on actual sales or uses of the patented invention.

In 1978 and 1979, petitioner Ricoh Company, Ltd. ("Ricoh") sought a license from respondent, Donald Snellman d/b/a Norfin ("Norfin"), to use the invention described in Patent No. 3,414,254 ("the '254 patent") to develop a collator for use

with a photocopying machine it was developing. Although Norfin had previously granted licenses under the same patent to Ricoh at a per-unit royalty rate of five percent, Norfin refused the license, seeking instead to obtain a contract to develop and manufacture the collator.

In December 1979, Ricoh and Norfin entered into a contract which obligated Norfin to develop a collator embodying the invention described in the '254 patent and thereafter to supply collators to Ricoh on a per-unit basis; each collator thus sold by Norfin to Ricoh would include an implied patent license from Norfin. Norfin failed to meet the delivery schedule established by the contract. When the prototype was ready for delivery in June 1980, Norfin refused to ship it unless Ricoh agreed to a new contract that drastically changed the terms of the original agreement. Ricoh rejected the new terms. When Norfin continued to refuse to ship the collator prototype, Ricoh terminated the contract on September 11, 1980.

When Norfin refused to ship the collator prototype, Ricoh began work on a substitute. This project focused on the development of an early Ricoh prototype that had been abandoned during the negotiations and agreement with Norfin. During the development of the project, Ricoh sought and obtained legal opinions from two independent law firms in the United States specializing in patent law, concerning whether the collator it was developing infringed Norfin's patent. Both advised Ricoh that its collator did not infringe the '254 patent. On November 10, 1982, Norfin filed this action alleging breach of contract and patent infringement.

At the first trial of the matter, the jury found that Ricoh had infringed the '254 patent, but that the infringement was nonwillful. It nonetheless awarded, as a "reasonable royalty," damages equal to more than 400% of the total revenues Ricoh realized from the sale of the infringing collators. Ricoh sold

1814 collators for total revenues of approximately $2.7 million, plaintiff claimed $24-$26 million as a reasonable royalty, and the jury awarded $12 million to Norfin.[1] This award was made after plaintiff's expert testified that *if* Ricoh had used a different distribution network, it *could have sold* many more photocopiers and collators than it actually did, and thus *could have realized* $276 million in revenues from United States sales rather than the $2.7 million actually realized. The expert's opinion was based in part on a revenue projection by a Ricoh employee estimating that Ricoh might sell 48,000 collators if it produced them on an OEM (original equipment manufacturer) basis for marketing by a company already established in the market, rather than entering the market by starting its own dealer network, as it did. The trial court concluded that the $12,000,000 award was a "miscarriage of justice" and granted a new trial on the issue of damages.

In proceedings leading up to the retrial, Ricoh brought several motions concerning the measure of damages. The trial court granted Ricoh's motion to require that damages be measured according to the actual scope of the infringing use. It also found that Norfin was not entitled to recover damages based on projected photocopier sales revenue, pursuant to the "entire market value" rule, because Norfin conceded that it had never sold or planned to sell photocopiers.[2] The trial court also concluded that it should exclude from evidence a settlement

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[1]The jury also awarded Norfin $2.9 million on the breach of contract claim. The district court granted Ricoh's motion for judgment notwithstanding the verdict, and the Federal Circuit affirmed, finding that Norfin's "refusal to ship the prototype collator was nothing less than an attempt to force Ricoh to renegotiate the contract." App. at 22a.

[2]Although Norfin based its royalty damages claim on Ricoh's projected sales revenues for both collators and photocopiers, the only accused device was the Ricoh collator, which accounted for only a small fraction of the revenue projections used by Norfin.

agreement between IBM and Norfin[3] and the document containing the 48,000 unit projection (Exhibit 143).[4]

Throughout discovery Norfin refused to disclose to Ricoh the damages evidence Norfin planned to offer at the retrial. Norfin failed to meet four scheduled deadlines for provision of its damages claim information, including two deadlines set by court order. Eight days before trial, after Ricoh had moved to limit Norfin's proof to the admissible evidence disclosed to that date, Norfin produced a report from its damages witness setting forth three royalty calculations – $453,000, $2,739,500, and $13,149,600. The second calculation violated the court's order limiting damages to actual sales. The third calculation violated that order, the order excluding the IBM-Norfin Agreement, and the court's order eliminating damages based on the "entire market value" rule. *See* App. at 16a-17a. The trial court concluded that the only admissible royalty calculation was $453,000. *Id.* at 18a-19a. Because of Norfin's dilatory discovery conduct, the trial court denied Norfin's request for leave to begin developing new damages estimates. *Id.* Rather

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[3]The IBM Settlement Agreement involved the payment by IBM of a lump sum royalty to Norfin after a jury found that IBM had willfully infringed the '254 patent. At the time of the negotiations, IBM faced an injunction against further production of its infringing collators, and stood to lose a substantial investment in its copier project if it had to develop a new collator. This investment included the training of 250 managers and 4000 salespersons, and the construction of a 5000-employee factory.

[4]Exhibit 143 is a projection made by an employee of Ricoh Company, Ltd. approximately a year before the date of first infringement. It indicates that if Ricoh had contracted to manufacture photocopiers for another company as an original equipment manufacturer, it might have sold as many as 48,000 collators. The projection was never approved by Ricoh's management. Other projections reflecting Ricoh's plan to distribute photocopiers under its own name, as it ultimately did, consistently projected Ricoh's world-wide sales in the 3900 to 6400 range. The number of infringing collators Ricoh actually sold was less than 2000.

than incur the expense of a new trial limited to the issue of damages, Ricoh consented to a judgment of $453,000 in damages plus prejudgment interest of $287,767.

On appeal after the entry of the stipulated judgment, the court of appeals reversed the trial court's exclusion of the IBM-Norfin Settlement Agreement and Exhibit 143.[5] It concluded that where a defendant nonwillfully infringes a patent, a jury may award as compensatory damages a lump sum royalty based on projections of infringing sales, without regard to whether or not those sales were ever made.[6] Accordingly it remanded the case to the trial court with instructions allowing it to reinstate the $12,000,000 verdict.

REASONS FOR GRANTING THE WRIT

This Court should grant certiorari to clarify the proper scope of reasonable royalty damages for patent infringement for four reasons. The Federal Circuit's extension of reasonable royalty damages to uses never made of the patented invention (I) will have an impact in virtually every patent case; (II) will nullify the patent damages statute, which limits damages to the "use made of the invention by the infringer"; (III) will result in a sharp departure from prior judicial decisions concerning damages for

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[5]In ruling on the exclusion of the IBM-Norfin Settlement Agreement, the Federal Circuit indicated that it did not know the basis of the trial court's ruling. It nevertheless concluded that the Agreement could not be excluded under Rule 408.

[6]The Federal Circuit noted that at the first trial, Ricoh had not objected to an instruction concerning the measure of damages offered by Norfin. The judgment of the district court from which Norfin appealed, however, was a direct result of the district court's determination that "reasonable royalty" damages must be based on the actual scope of the infringing use. App. at 13a; *see also id.* at 16a-19a (applying ruling to Norfin's damages calculations). Thus the jury instructions given at the first trial have no bearing on the issue presented for review.

patent infringement; and (IV) will undermine the public policies underlying the patent laws, leading to irrational and unjust results in patent litigation.

This Court has not yet addressed this precise issue since no court has ever before held that a reasonable royalty can be based on sales that didn't occur. The Federal Circuit's decision is, however, in clear conflict with the reasoning in *Aro Mfg. Co. v. Convertible Top Replacement Co.* ("*Aro II*"), 377 U.S. 476 (1964).

I. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Have an Impact in Virtually Every Patent Case.

This case presents a question of fundamental importance in patent litigation. Section 284 of title 35 of the United States Code commands that the damages to be awarded for infringement of a patent are to be adequate to compensate for the infringement but no less than "a reasonable royalty for the use made of the invention by the infringer." Where the patentee has lost sales because of the infringement, he may seek lost profits; otherwise he may recover a reasonable royalty. Where the patentee regularly licenses his invention, an established royalty may be awarded as damages. Reasonable royalty claims based on hypothetical negotiations are often presented by the patentee as an alternative damages measure to be used by the trier of fact if proof of lost profits or an established royalty is inadequate. Even in cases where a patentee is able to show some lost profits or an established royalty, courts have held that the patentee may still claim a reasonable royalty instead. *See, e.g., H. K. Porter Co. v. Goodyear Tire & Rubber Co.*, 536 F.2d 1115 (6th Cir. 1976) (reasonable royalty awarded for years when not exceeded by lost profits); *Tights, Inc. v. Kayser-Roth Corp.*, 442 F. Supp. 159, 164-65 (M.D.N.C. 1977) (reasonable

royalty greater than established royalty). *See also* 5 D. Chisum, *Patents*, Remedies, §§ 20.03[1], [2] (1988). Thus, the amount of a "reasonable royalty" is potentially at issue in every patent case.

By disconnecting reasonable royalty calculations from the actual use made of the invention, the Federal Circuit has invited plaintiffs to resort to the reasonable royalty measure of damages as a way to collect damages far beyond those consistent with the compensatory purpose of the statute. Permitting damages claims to be based on speculation about how many infringing sales *might have occurred* will turn the calculation of a reasonable royalty, and thus the calculation of patent damages in general, into a sporting contest in which experts attempt to justify extravagant royalty projections with marketing and sales scenarios that never occurred. If this approach is sanctioned, a patentee's recovery need bear no relationship to the actual damages sustained, contrary to this Court's decision in *Aro II*, 377 U.S. at 504-06.

Federal trial courts presiding over patent cases should not be obliged to guess at the scope and extent of the decision below. The Federal Circuit is the sole court of appeals addressing patent issues, and thus other Circuits cannot correct its course through well-reasoned opinions instructing the federal trial courts. This Court should grant certiorari to establish clearly that a reasonable royalty to compensate an inventor whose patent has been infringed cannot be based on projections of infringing sales that never occurred.

II. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Nullify the Patent Damages Statute, Which Limits Damages to the "Use Made of the Invention by the Infringer."

Section 284 allows patentees to recover "a reasonable royalty *for the use made of the invention by the infringer.*" 35 U.S.C. § 284 (emphasis added). This language clearly does not contemplate that an infringer must pay a royalty for uses not made of the invention. Yet the Federal Circuit's decision approves just such an award by allowing damages to be based on projected sales that were never made. The Federal Circuit's approach reads out of the statute the requirement that damages be determined according to the infringer's use of the invention.

Respondent argued to the trial court that damages for nonwillful infringement were not limited by the actual sales of infringing collators, and to the Federal Circuit that the term "use" has no particular meaning. The trial court held correctly that "there is no warrant in law for the recovery by a patentee of damages for an infringement in the form of an act or acts which did not in fact occur." App. at 13a. But the Federal Circuit approved an award, rejected by the trial court, that included payment of a "lump sum" royalty for collators that were never even made, much less sold. The Federal Circuit approved of an award more than four times Ricoh's total sales "in view of . . . Ricoh's *sales forecast* of 40,000 to 50,000 copiers." App. at 40a (emphasis added).

The Federal Circuit's reasoning would render the words "for the use made of the invention by the infringer" superfluous. Such a construction of section 284 violates "the well-settled rule of statutory construction that all parts of a statute, if at all possible, are to be given effect." *Weinberger v. Hynson, Westcott & Dunning, Inc.*, 412 U.S. 609, 633 (1973); *see also*

D. Ginsberg & Sons v. Popkin, 285 U.S. 204, 208 (1932) (construction would violate "cardinal rule that, if possible, effect shall be given to every clause and part of a statute"). This Court should grant certiorari to clarify that section 284 means what it says.

Reasonable royalty damages far in excess of the amount necessary to compensate the patentee for the actual use made of the invention are inconsistent with the legislative scheme set forth in section 284. The effect of the Federal Circuit's decision is to confuse the punitive and deterrent purpose of awarding treble damages and attorney's fees with the purely compensatory purpose of computing a reasonable royalty.[7] The reasonable royalty measure of damages was never intended to serve a punitive or deterrent function.

In enacting section 284, Congress provided separately for damages to punish and deter willful infringers. As Congress noted in enacting the predecessor to section 284:

> [T]he discretion given the court [to award attorney's fees], in addition to the present discretion to award triple damages, will discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.

S. Rep. No. 1503, 79th Cong., 2d Sess. 2, *reprinted in* 1946 U.S. Code Cong. Serv. 1386, 1387 (1946). Thus the Federal Circuit's approach contravenes the legislative scheme to

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[7]This confusion is evident not only in this case but also in prior cases where the Federal Circuit has taken the position that a reasonable royalty for an infringer is more than a reasonable royalty for a noninfringer, suggesting that otherwise an infringer would have nothing to lose by paying only the normal royalty. *See, e.g., Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983).

compensate the patentee by awarding a reasonable royalty, and punish only willful infringers with treble damages and attorneys' fees. This Court should grant certiorari to prevent the Federal Circuit from further eroding the legislatively-mandated distinction between compensatory and punitive damages.

III. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Will Result in a Sharp Departure from Prior Judicial Decisions Concerning Damages for Patent Infringement.

The measures of damages available pursuant to 35 U.S.C. § 284 are well established:

> There are two methods by which damages may be calculated under this statute. If the record permits the determination of actual damages, namely, the profits the patentee lost from the infringement, that determination accurately measures the patentee's loss. If actual damages cannot be ascertained, then a reasonable royalty must be determined.

Hanson v. Alpine Valley Ski Area, Inc., 718 F.2d 1075, 1078 (Fed. Cir. 1983). *See also Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1157 (6th Cir. 1978); *Foster v. American Mach. & Foundry Co.*, 492 F.2d 1317, 1321 (2d Cir.), *cert. denied*, 419 U.S. 833 (1974); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1127 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). Thus, though the "reasonable royalty" is a floor beneath which damages may not fall, *see Bandag Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1583 (Fed. Cir. 1983), it also represents the only available type of damages for infringement absent proof of lost profits. Since Norfin has neither claimed nor offered proof of lost profits, the

only damages award that can be made in the present case is "a reasonable royalty for the use made of the invention by the infringer."

The reasonable royalty measure of damages addresses the problem of compensating a patentee for infringement of its patent when lost profits cannot be shown. *See Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988); *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648 (1914); *see also* 5 D. Chisum, *supra*, § 20.02[2]. To determine a reasonable royalty rate for the patentee's license (where there is no established royalty, which is the best measure of a reasonable royalty), courts developed the fiction of hypothetical negotiations between a willing licensor and willing licensee, neither of whom is compelled to deal with the other. *See, e.g., Horvath v. McCord Radiator & Mfg. Co.*, 100 F.2d 326, 335 (6th Cir. 1938), *cert. denied*, 308 U.S. 581 (1939); *Austin-Western Road Mach. Co. v. Disc Grader & Plow Co.*, 291 F. 301, 304 (8th Cir. 1923), *cert. denied*, 263 U.S. 717 (1924).

In determining a reasonable royalty, the trier of fact is to determine what a prudent licensee would have been willing to pay as a royalty and yet be able to make a reasonable profit. This amount must also be one which would have been acceptable by a prudent patentee who was willing to grant a license. *Georgia-Pacific Corp.* 318 F. Supp. at 1121-22. The object of the analysis is not merely to derive a hypothetical royalty rate, but to approximate the actual loss suffered by the patentee. *Fromson*, 853 F.2d at 1575. Accordingly, the actual extent to which the infringer has made use of the invention has long been considered an important factor relevant to the determination of a reasonable royalty.[8] *See, e.g., Sinclair Ref.*

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[8]For comprehensive lists of the factors relevant to the determination of the amount of a reasonable royalty for patent infringement, *see generally*

Co. v. Jenkins Petroleum Process Co., 289 U.S. 689, 697 (1933); *Dowagiac Mfg. Co.*, 235 U.S. at 648; *see also Panduit Corp.*, 575 F.2d at 1159; *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

The importance of the extent of use to the reasonable royalty calculation is illustrated by this Court's decision in *Dowagiac Mfg. Co.*, where the Court explicitly approved the use of reasonable royalty damages. Addressing the measure of compensatory damages in the absence of proof of lost profits, the Court stated:

> As the exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken. So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. [Citing cases.] But, as the patent had been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, *and the extent of the use involved.*

235 U.S. at 648 (emphasis supplied).

The Federal Circuit's opinion severs the reasonable royalty analysis from its compensatory purpose not only by eliminating

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5 D. Chisum, *supra*, § 20.03[3]; *Georgia-Pacific Corp.*, 318 F. Supp. at 1120.

the extent of use as a factor, but in other important ways. For example, in prior cases the time of the hypothetical negotiations has been fixed at the time of the first infringement. *TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899 (Fed. Cir.), *cert. denied*, 479 U.S. 852 (1986); *see also Panduit Corp.* 575 F.2d at 1158 (key element is to return to date when infringement began). The willing licensor and willing licensee are presumed to negotiate under the circumstances and with the information available to the patentee and infringer at the time of the first infringement. *See, e.g., Georgia-Pacific Corp.*, 318 F. Supp. at 1121-22. Consistent with the compensatory purpose of the remedy, however, information that becomes available after the first infringement is also considered. *See, e.g., Sinclair Ref. Co.*, 289 U.S. at 697-98 (1933); *Amerace Esna Corp. v. United States*, 462 F.2d 1377, 1380-81 (Ct. Cl. 1972).

The Federal Circuit's decision here inexplicably departs from this analysis by allowing consideration of sales projections no longer operative at the time of the first infringing sale (*e.g.*, Exhibit 143). In allowing the admission of the IBM-Norfin Settlement Agreement, which was negotiated long after the infringement in that case, the decision also allows consideration of factors that would not have faced the licensor and licensee at the time of the hypothetical negotiations.

Most extreme is the Federal Circuit's departure from the principle that a willing licensee should be able to make a profit and from cases holding that a royalty award of 100% of the expected per unit profit is an excessive royalty. *Georgia Pacific Corp.*, 446 F.2d at 298-300 (100% of infringer's profits is an excessive royalty); *Atlas-Pacific Engineering Co. v. Geo. W. Ashlock Co.*, 339 F.2d 288, 289 (9th Cir. 1964), *cert. denied*, 382 U.S. 842 (1965) (100% of infringer's receipts from rental of infringing machines is an excessive royalty). Clearly no licensee would agree to pay as a royalty four times the sales price of the product using the invention. Yet the Federal Circuit

approved of a $12 million damages award in a case in which the total revenues from sales of the infringing product amounted to $2.7 million.

The Federal Circuit has abandoned the traditional framework of the willing licensor-willing licensee hypothetical for an "anything goes" approach, offering little or no guidance to district courts that must apply damages measurement principles in practice. Prior to the Federal Circuit's decision in this case, no court had held that an infringer could be required to pay a lump sum royalty that included payments for sales or uses of the infringing device that were contemplated but which never occurred. Rather, this Court held in *Aro II* that section 284 "allows the award of a reasonable royalty, or any other recovery, only if such amount constitutes 'damages' for the infringement." 377 U.S. at 505. Similarly, lower courts, including the Federal Circuit, had recognized that "a court is not at liberty, in [applying the willing licensor-willing licensee hypothetical] to abandon entirely the statutory standard of damages 'adequate to compensate' for the infringement." *See, e.g., Fromson,* 853 F.2d at 1575.

The legal fiction of hypothetical negotiations between a willing buyer and willing seller has long been used as an aid to determine a reasonable royalty rate. But it has never before been allowed to supply a substitute for the actual number of infringing uses as the royalty base to which the rate is applied.[9] There is no need to resort to fiction in determining the royalty base, because the number of units sold can virtually always be established.

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[9]A royalty is the product of two factors: royalty rate and royalty base. In the case of sales of a patented machine (as here), the royalty base is the number of machines sold, or the revenue generated by such sales. The royalty rate may be a percentage (*e.g.*, 10% of net sales price) or a lump sum per machine (*e.g.*, $100 per unit sold); it is multiplied by the royalty base to determine the total royalty.

Accordingly, even where a "lump sum" royalty has been awarded, the amount of the royalty has been tied, by apportionment or otherwise, to the actual number of infringing devices used or sold by the infringer. *See, e.g., Hanson,* 718 F.2d at 1075 (lump sum per machine royalty damages limited to years machines were in use by defendant); *Stickle,* 716 F.2d at 1550 (lump sum per machine); *Minnesota Mining & Mfg. Co. v. Berwick Indus.,* 393 F. Supp. 1230, 1245-46 (M.D. Pa. 1975) (lump sum royalty prorated to infringing uses), *aff'd,* 532 F.2d 330 (3d Cir. 1976).

The Federal Circuit's decision is a significant departure from these prior cases. In this case Ricoh sold only 1814 collators, but the Federal Circuit's decision allows Norfin to be awarded damages as if Ricoh had sold 40,000 to 50,000 collators. By failing to limit damages to the scope of the infringing use – *i.e.*, actual sales – the Federal Circuit's analysis turns the determination of a reasonable royalty into a purely abstract exercise without regard to the compensatory purpose of the damages remedy. Certiorari should be granted to restore, for the guidance of the lower courts, a sound framework of judicial interpretation for the determination of statutory damages measured by a reasonable royalty.

IV. The Federal Circuit's Extension of "Reasonable Royalty" Damages to Uses Never Made of the Patented Invention Is Contrary to the Public Policies Underlying the Patent Laws and Will Lead to Irrational Results in Patent Litigation.

The Federal Circuit's decision will lead to wildly disproportionate damages for inadvertent acts of infringement, thereby threatening the balance embodied in the patent laws that seeks to protect competition as well as promote innovation. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,* ___ U.S. ___, 109 S. Ct. 971, 975-78 (1989). The recovery of a royalty

of more than 400% of petitioner's total revenues from the infringing device will exert an enormous *in terrorem* effect on inventors seeking to refine existing technology.

The Federal Circuit's decision is inconsistent with the policy of patent laws to promote free competition through improvement and refinement of existing technologies.[10] The risk of incurring enormous damages for a very small volume of sales, undertaken in good faith but later found to be infringing, will chill efforts to refine existing technology. The huge price tag for guessing wrong will substantially reduce the challenges to questionable and invalid patents. Yet such challenges are vital to the preservation of competition in the face of patent monopolies. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 669-74 (1969); *see also* 5 D. Chisum, *supra*, § 20.03[4] at 20-177.

The Federal Circuit's unwarranted extension of patent recovery to uses never made of the invention will also have a tremendous adverse impact on the orderly administration of patent litigation in the district courts. Under the theory approved by the Federal Circuit, damages for patent infringement will be based on purely imaginary elements, independent of the acts of infringement which actually occurred. Triers of fact will be asked not only to calculate the royalty rate to which a willing licensor and willing licensee might have agreed, but also to imagine the number of infringing uses to which the invention might have been put under different circumstances. Contemplated uses and projected sales will be treated as acts of infringement, with the patentee theoretically sustaining damage from the mere consideration by the infringer of those additional uses or sales.

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[10]The Federal Circuit has undervalued this policy. *See, e.g., Interpart Corp. v. Italia*, 777 F.2d 678 (1985) (upholding prohibition of use of direct molding process to copy unpatented articles), *disapproved, Bonito Boats, Inc.*, 109 S. Ct. at 984-85.

The Federal Circuit's approach would inevitably lead to inequitable and indefensible damages awards. The court of appeals' decision even sanctions the award of a lump sum royalty for uses prevented by the patentee himself. For example, if a patentee can obtain an injunction and then seek damages based on projected sales, he is placed in a much better position than if he had negotiated a lump sum license prior to infringement: A licensor who prevents a licensee from obtaining the full benefit of the license granted would not be entitled to keep the full amount of any lump sum paid by the licensee. Thus, a paid-up royalty is not equitable unless prorated to the use actually made of the invention by the infringer. That is so because a court can never give to the infringer the unlimited production rights that a willing licensee would have obtained in negotiating a paid-up license. Thus, the patentee will be overcompensated and the nonwillful infringer punished by the amount which represents payment for uses never made of the invention.

Moreover, the Federal Circuit's approach sanctions identical treatment for radically different acts of infringement, and radically different treatment for similar acts of infringement involving the same patent.[11] It assumes that the patentee suffers the same injury whether the infringer sells a few units or hundreds of thousands of units, making the award turn on plaintiff's expert's estimates of what the infringer could have sold. Finding themselves exposed to the same liability whether or not they cease production, alleged infringers will have no incentive to discontinue infringing sales voluntarily.

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[11]In this very case, for example, Ricoh's nonwillful infringement of the '254 patent by sales of only 1814 units resulted in an award of $12,000,000, while IBM's willful infringement of the same patent by sales of over 9000 units resulted in an award of $7,500,000.

Finally, the Federal Circuit's analysis also undermines the compensatory purpose of reasonable royalty damages. If the amount of a reasonable royalty does not depend upon actual use or actual sales, then defendants can argue for small lump sum royalties based on low sales or profit projections. If it is logical to award damages for uses never made of an invention, it is equally logical not to award damages for uses that are made of the invention. Either the words "use made of the invention by the infringer" have a meaning or they do not. Their meaning cannot depend on whether the words are invoked by a plaintiff or by a defendant. Thus, where an infringer's product is wildly successful beyond anyone's expectations, a jury could find that at the time of infringement the patentee would have received only a small paid-up royalty that does not include payment for unanticipated uses or sales of infringing units. Although the Federal Circuit's decision appears to be intended to increase the size of damage awards to patentees, in many cases it may have the opposite effect.

CONCLUSION

For these reasons, this petition for certiorari should be granted to resolve a question fundamental to the continued effective administration of the federal patent laws.

Respectfully submitted.

Preston Moore
Counsel of Record
Tamu K. Sudduth
Morrison & Foerster
345 California Street
San Francisco, CA 94104-2675
(415) 434-7000

Gerald W. Griffin
Cooper & Dunham
30 Rockefeller Plaza
New York, New York 10112
(212) 977-9550

Counsel for Petitioner
Ricoh Company, Ltd.

Of Counsel:

Arthur I. Neustadt
Richard D. Kelly
Oblon, Spivak, McClelland,
Maier & Neustadt, P.C.
1755 Jefferson Davis Hwy.
Arlington, VA 22202
(703) 521-5940

May 1, 1989.

SPECIAL JURY INTERROGATORIES

1. Do you find that the accused Ricoh collators infringe the Snellman '254 patent? **Yes** or No.

If yes, what are the damages to be awarded to Norfin as a reasonable royalty? **$ 12,000,000.**

2. If you find that the collators infringe the Snellman patent, do you find that such infringement was willful and deliberate? Yes or **No.**

3. Do you find that Ricoh breached the contract? **Yes** or No.

If yes, what are the damages to be awarded to Norfin as contract damages? **$ 2,900,000**.

4. Do you find that Norfin breached the contract? Yes or **No**.

If yes, what are the damages to be awarded to Ricoh as contract damages? $_____

DATE: August 3, 1984

SIGNED:

/s/ Faye A. Dunseth
Jury Foreperson

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN
d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104

Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-Chome
Minato-Ku, Tokyo 107, Japan

Defendants.

No. C-82-6188-WAI(SJ)
ORDER

I.

MOTION FOR JUDGMENT NOV

The motion of defendant for judgment notwithstanding the verdict is GRANTED, or in the alternative, a new trial is GRANTED on all issues with respect to plaintiff's breach of contract claim and DENIED with respect to plaintiff's patent infringement claim.

In ruling on defendants' motion for judgment notwithstanding the verdict, the court adheres to and follows the standards well said by Judge Sneed in *William Inglis & Sons*

Baking Co. v. ITT Continental Baking Co., Inc., 668 F.2d 1014 (9th Cir.), *cert. denied*, 459 U.S. 825 (1983). The judgment NOV should be granted if, without accounting for the credibility of witnesses, the evidence and its inferences, considered as a whole and viewed in the light most favorable to the non-moving party can support only one reasonable conclusion – that the moving party is entitled to judgment notwithstanding the adverse verdict. This court cannot reach a result inconsistent with the verdict if the verdict is supported by substantial evidence.

The court is of opinion that the evidence taken as a whole supports only one reasonable conclusion on the contract claim: defendant did not breach the agreement of December 13, 1979.

Furthermore, the court is of opinion that a verdict finding that plaintiff Snellman was entitled to withhold performance on his part of the agreement of December 13, 1979, pursuant to the provisions of Uniform Commercial Code, §2-609, is an unreasonable conclusion in light of the evidence.

As pointed out by defendant, the court has previously ruled that no communication between the parties subsequent to the date of July 21, 1980, is relevant to the issue of whether a reasonable person in the position of plaintiff would have had adequate grounds for insecurity that the contract in question would be performed according to its terms.

The plaintiff has demonstrated no grounds for insecurity sufficient to justify the withholding of performance. Plaintiff relies on the following evidentiary grounds to demonstrate objective grounds of insecurity (plaintiff's opposition to defendant's motion for judgment NOV pp. 9, *et. seq.*):

1. Snellman's stated belief that the forecasts provided by Ricoh in Schedule D of the Agreement were unfounded and unrealistic.

2. In May or June of 1980, the forecasts were so out of date as to raise doubts as to Ricoh's intent to abide by the Agreement.

3. The revision of sales projections is a commercially reasonable practice in the reprographics industry.

4. Testimony of Mullen and Stone that the projections contained in Section D were on the low side.

5. Ricoh failed to provide plaintiff with specific information as to quantity, scheduling or marketing.

6. The price of the collators was an open contractual question which Ricoh did not negotiate in good faith and in accordance with commercial practices.

7. The quality of the Norfin prototype was not a condition precedent under the Agreement of December 13, 1979, to Ricoh's obligation to provide timely information and to negotiate open terms of the contract.

8. The development of the prototype developed by Ricoh was sufficient as a grounds for insecurity that Ricoh would fail to purchase all of its requirements from Norfin.

9. Ricoh's refusal to ship its prototype which it displayed at the Hanover Fair to Norfin for Norfin's inspection, and did not give Norfin information as to the response evoked by the prototype at the Hanover Fair, thus giving rise to insecurity on the part of Norfin.

10. The copiers sent by Ricoh to Norfin, at the latter's request, did not work properly.

The evidence does not demonstrate by a preponderance that any action or failure to act on the part of Ricoh would cause apprehension in the mind of a reasonable man that Ricoh *would not perform the contract which the parties negotiated and agreed to* in accordance with its terms.

While commercial usages in a particular industry no doubt impose upon parties the duty to act in good faith in their dealings with each other, the notion that such usages in effect form a new and different agreement between the parties is unacceptable.

Nor does the court find in Norfin's repeated efforts to receive performance from Ricoh other than that specified in the contract the type of assurance request contemplated by UCC §2-609.

The court rejects plaintiff's contention that satisfaction of Ricoh in the quality of the product produced by Norfin is not an enforceable condition precedent to any further duty on the part of Ricoh. Surely, no further reasonable negotiation with respect to the price or quantity of collators to be purchased could reasonably happen until all parties were satisfied with respect to the quality of the product produced.

In the alternative, the court GRANTS the defendants' motion for new trial on all issues pertaining to the breach of contract claim.

If it be subsequently found that there is substantial evidence to support the verdict and thus render a JNOV inappropriate, then this court finds that the jury verdict on the breach of contract claim is against the clear weight of the evidence on all issues.

The right to withhold performance by Norfin under UCC §2-609 is supported only by the unilateral opinions of Snellman, commercial usages at odds with the specific provisions of the negotiated contract and refusal by Ricoh to comply with demands of Norfin for performances not specified in the contract.

II.

MOTION FOR NEW TRIAL

The defendant's motion for new trial on the patent claim is GRANTED *on the issue of damages alone*. Fed. R. Civ. P. 59(a), and DENIED on the issue of infringement.

Since patent infringement damages must be determined as of the date of first infringement, *Hanson v. Alpine Ski Lodge*, 718 F.2d 1075, 1079 (C.A.F.C. 1983), the testimony of Stone with respect to the Richo-Savin negotiations and Exhibit 143 were irrelevant to the issue of damages and should have been either excluded or appropriately limited by admonition. Furthermore, the admission of the IBM-Norfin agreement as a comparable license agreement was probably error in light of the unique circumstances surrounding the agreement.

The verdict of $12,000,000 constitutes a miscarriage of justice in the opinion of this court.

DATED: 1/18/85

/s/ WILLIAM A. INGRAM
United States District Judge

Note: This Order will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

DONALD L. SNELLMAN, d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee.

Appeal No. 85-2183

ON MOTION

ORDER

The court has before it the motion of appellee Ricoh Company Ltd. (Ricoh) to dismiss the appeal of appellant Donald L. Snellman d/b/a Norfin (Norfin), on the ground that the appeal is interlocutory and therefore premature.

Norfin sued Ricoh for patent infringement and breach of contract. The jury returned a verdict for Norfin on all issues and found damages. Ricoh moved for judgment notwithstanding the verdict or, alternatively, for a new trial. The district court left untouched the jury's verdict on the liability phase of the patent infringement claim, but entered a judgment N.O.V. on the issue of contract breach and granted a new trial on the issue of contract breach and on the amount of patent damages.

Norfin's appeal from the district court's order, though broadly stated, is necessarily limited to the issues on which it lost, *i.e.*, the grant of judgment N.O.V. on the contract issue and the grant of a new trial on breach of contract and on the amount of damages for patent infringement. Because it prevailed on the issue, Norfin cannot appeal from the judgment respecting patent infringement, under 28 U.S.C. § 1292(c)(2) or otherwise.

The trial court's entry of judgment N.O.V. on the contract liability issue is final and appealable under Fed. R. Civ. P. 50. 9 J. Moore, *Moore's Federal Practice*, ¶ 110.08[3] at 122. The district court's conditional grant of a new trial on the contract issue did not affect the finality of the judgment N.O.V. on that issue. Fed. R. Civ. P. 50(c)(1).

The district court's order for a new trial on patent damages is also appealable, the issue being whether the grant of a new trial on that issue constituted an abuse of discretion. 6A J. Moore, *Moore's Federal Practice* ¶ 59.08[6].

Accordingly, IT IS ORDERED THAT:

(1) Ricoh's motion for leave to file a reply to Norfin's opposition to Ricoh's motion to dismiss is granted;

(2) Ricoh's motion to dismiss is denied.

FOR THE COURT

Dated 8 Jan. 1986

/s/ Howard Markey
Chief Judge

Note: This Order will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals for the Federal Circuit

DONALD L. SNELLMAN, d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee.

Appeal No. 85-2183

ON MOTION

Before MARKEY, Chief Judge.

ORDER

Ricoh Company, Ltd. (Ricoh) moves for clarification of a January 8, 1986 order denying Ricoh's motion to dismiss this appeal.

Having reviewed the motion, the opposition of Norfin, and Ricoh's reply

IT IS ORDERED:

(1) The motion is granted.

(2) Only that portion of the district court's order granting the judgment N.O.V. and granting new trial on breach of contract is appealable at this time. 9 J. Moore, *Moore's Federal Practice*, ¶ 110.08[3].

(3) The order of January 8, 1986 correctly stated that the order for new trial on patent damages is appealable, but did not note that it is appealable only when merged into a final, appealable judgment. The order of January 8, 1986 is affirmed in all other respects.

FOR THE COURT

Dated 7 Feb 86

/s/ Howard Markey
Chief Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN d/b/a NORFIN,
500 First Avenue South
Seattle, Washington 98104,
Plaintiff,

v.

RICOH COMPANY, LTD.,
15-5, Minami-Aoyama, 1-chome
Minato-ku, Tokyo 107, Japan,
Defendant.

NO. C-82-6188-WAI(SJ)

ORDER

Defendant Ricoh has made four *in limine* motions relating to the measure of damages for patent infringement to be employed in the upcoming trial of the action. The parties have characterized the motions respectively as First Motion, Second Motion, Third Motion and Fourth Motion, and the court will adopt the same characterization.

First Motion

This motion effectively seeks the court's ruling that by reason of its exercise of its "right of cover" as provided in the Uniform Commercial Code, defendant Ricoh did not infringe the '254 patent, and any damages due Norfin are contractual damages stemming from the agreement between the parties.

The motion is DENIED.

The jury found that the patent was infringed and that finding will not be overturned by the court in the guise of selecting the appropriate measure of damages.

Ricoh disclaims intent to challenge the jury's findings, asserting that it desires only to modify the legal conclusions flowing therefrom. However, the result which Ricoh seeks to achieve will in fact alter a jural finding. Furthermore, to reach the result sought by Ricoh would require the making of at least one finding by the court: that the exercise of the right of cover in these circumstances is equivalent to an authorized use of technology within the meaning of 35 U.S.C. § 271.

The theory now advanced as a bar to infringement, either was not adequately presented to the jury upon the trial of the issue or was rejected by the jury. In either case, this court will not disturb the jury's finding.

II.

Second Motion

This motion deals with the method of calculation of the infringement damages and would confine such calculation to the terms of the contract of purchase and sale between the parties.

The motion is DENIED.

While the per unit sales price might be some evidence of royalty rate, if separated in accordance with the methodology suggested by Ricoh, it is not necessarily the exclusive method of determining the royalty rate. Whether it is or is not is a matter of jural fact.

III.

Third Motion

This motion seeks to measure the damages for patent infringement to a royalty base co-extensive with the number of infringing sales and not broader than that.

The motion is GRANTED.

Neither *Panduit Corp. v. Stahlin Bros. Fibre Works,* 575 F.2d 1152 (6th Cir. 1978), nor *Hanson v. Alpine Valley Ski Area, Inc.,* 718 F.2d 1075 (Fed. Cir. 1983), each of which are strongly relied upon by Norfin, supports the contention that the royalty rate fixed as provided in those cases be applied as a "lump sum" to all sales hypothetically contemplated by the parties at the time of the first infringement as distinguished from the actual infringing sales conducted. The "hindsight" referred to in those cases concerns the contemplated as distinguished from actual *profit element* utilized in the fixing of the reasonable royalty rate. Those cases do not purport to deal with the fixing of the royalty base to which the rate is applied.

An examination 35 U.S.C. § 284, and the authorities cited by respective counsel, convinces the court that there is no warrant in law for the recovery by a patentee of damages for an infringement in the form of an act or acts which did not in fact occur.

IV.

Fourth Motion

By this motion Ricoh seeks an order permitting it to try damages alleged to be owed to it by reason of Norfin's alleged breach of contract. The motion also seeks a modification of this

court's order of January 18, 1985, by broadening its ruling on the judgment notwithstanding the verdict to include the issues raised by the counterclaim and for new trial on the issue of damages by reason of Norfin's purported breach.

This motion requires further argument because it presents a serious question which the court feels some hesitation in deciding on the basis of the materials now before it.

On the basis of those materials, the court is inclined to deny the motion because it is not timely within the meaning of Rules 50(b) and 59(b), and because in the guise of a motion *in limine* Ricoh seeks to in effect reargue motions heard and determined more than a year ago.

On the other hand, the court's January 18, 1985, ruling that Ricoh did not breach the contract can logically be interpreted in the manner which Ricoh regards it, and if that is so, Ricoh should not be denied its opportunity to try the issue of damages, if any.

The problem is one of overcoming the effect of failing to raise these issues at the appropriate time.

Dated: 4-4-86

/s/ WILLIAM A. INGRAM
United States District Judge

James J. Brosnahan
Preston Moore
Morrison & Foerster
California Center
345 California Street
San Francisco, California 94104-2105
Telephone: (415) 434-7000

Attorneys for Defendant
RICOH COMPANY, LTD.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104
Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-chome
Minato-ku, Tokyo 107, JAPAN
Defendant.

No. C-82-6188-WAI(SJ)

PROPOSED ORDER

The motion of defendant Ricoh Company for a preclusionary order under Rules 16(f) and 37 came on for hearing on July 14 and July 15, 1986. The motion was originally filed on

June 17, 1986 and was noticed for hearing on June 26. On June 24, the plaintiff filed an opposition to this motion.

The June 26 hearing resulted in a stipulated Court Order holding the preclusion motion in abeyance, so that the Court could give the plaintiff one further opportunity to meet its discovery obligations. The stipulated order provided that certain damage interrogatory answers were to be provided by July 9 and plaintiff's expert was to be made available for a deposition by July 11. The plaintiff failed to comply with these Court-ordered deadlines, and on July 11, defendant renewed its motion for a preclusionary order.

On the evening of July 13, the plaintiff telefaxed a damage report of its designated expert to defendant. That report was made available to the Court by defendant on the morning of July 14, and the report was considered at the hearing conducted by the Court later that day.

Plaintiff's damage report contains three royalty calculations. The first calculates a reasonable royalty of $453,000 based on the actual number of infringing collators sold by the defendant multiplied by a retail sale price of $2500 per unit, to which a royalty rate of 10% is applied.

The second calculation arrives at a royalty of $2,739,500, based on projected collator sales of 10,958 units – again multiplied by a $2500 per unit price, to which a 10% royalty rate is applied.

The third calculation arrives at a royalty of $13,149,600. This amount is based on projected sales of 10,958 collator *and copier* units at a total retail sales price of $12,000 for the two machines. Once again, a 10% royalty rate is applied.

The Court concludes that the second of these royalty calculations is legally invalid and inadmissible. On April 4, 1986, the Court ruled that the damages for patent infringement must be based on the actual number of infringing sales. The second royalty calculation directly violates that order by calculating a royalty according to a sales volume six times greater than the actual number of infringing sales.

The Court further concludes that the third royalty calculation is also legally invalid and inadmissible. This royalty calculation is based on projected volumes rather than actual volumes, and therefore violates the Court's April 4 order. The third calculation is based on the inclusion of copier revenues in the royalty base. On June 4, 1986, the Court ruled that copier revenues could not be included in the royalty base unless plaintiff could prove at trial that it was selling, or anticipated selling, copiers as well as collators. Plaintiff has conceded that it cannot meet that requirement and does not intend to attempt to do so at trial. The third royalty calculation is also legally invalid and inadmissible in that it is arrived at on the basis of the $20,500,000 settlement negotiated by the plaintiff in a prior lawsuit against IBM. Repeatedly, the Court has informed the plaintiff that this settlement agreement cannot be the basis for a damage award in this case.

At the July 14 hearing on defendant's motion for a preclusionary order, plaintiff asserted that it should still be permitted to offer general background testimony from its expert, even though all but one of his damage claim calculations concededly violate the Court's previous Orders. Plaintiff's counsel argued that the plaintiff himself should be permitted to offer an opinion concerning the reasonable royalty to be awarded as damages.

On May 22, 1986, defendant took the deposition of Mr. Snellman, the named plaintiff, and attempted to discover

what opinions he had, if any, concerning the damages to be awarded at the retrial. The Court has reviewed the relevant portions of Mr. Snellman's deposition, and it is clear that Mr. Snellman's opinion concerning the reasonable royalty damages is no more admissible than Mr. Stone's.

Mr. Snellman expressed the opinion that his damages should be some figure in excess of $20 million, based on the fact that he settled his lawsuit with IBM for that amount. As indicated above, the IBM settlement cannot be the basis for a damage award in this case. Moreover, the damage amount, or at least the unspecified range of damage amounts, in Mr. Snellman's opinion are at least $8 million in excess of what the Court already found to be excessive and a miscarriage of justice in granting a new trial in this case. The Court concludes, therefore, that Mr. Snellman's testimony does not provide an admissible basis for a damage award in this case.

There is no basis for permitting the plaintiff to attempt now to perform new damage calculations in an effort to generate new admissible evidence. The plaintiff has failed to meet four scheduled deadlines for provision of its damage claim information and the deposition of its designated expert – two of them set by Court Order. The plaintiff has known since January, 1985 that a retrial would occur on the issue of patent damages and has known since December, 1985 that the retrial would occur in June or July, 1986. Pursuant to Rules 16(f) and 37(b)(2)(B), the Court concludes that plaintiff should be precluded from offering any damage claim evidence other than that already disclosed to defendant.

Among the damage claim evidence identified by the plaintiff through discovery, the only damage calculation that complies with the Court's orders is plaintiff's calculation of a reasonable royalty on the basis of defendant's actual sales of infringing collators, to which a royalty rate of 10% was applied by

plaintiff's expert. The royalty thus calculated by plaintiff's expert is $453,000. Accordingly,

IT IS ORDERED that plaintiff is precluded from offering damage calculations at trial in excess of the only admissible reasonable royalty calculation provided by plaintiff to date: $453,000.

Dated: July 15, 1986.

/s/ William A. Ingram
U.S. District Court for the
Northern District

Note: This opinion will not be published in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent. The decision will appear in tables published periodically.

United States Court of Appeals for the Federal Circuit

Appeal No. 85-2183
USDC 82-6188 WAI

DONALD L. SNELLMAN d/b/a NORFIN,
Appellant,

v.

RICOH COMPANY, LTD.,
Appellee

DECIDED: July 22, 1986

Before MARKEY, *Chief Judge*, BALDWIN, *Circuit Judge*, and MILLER, *Senior Circuit Judge*.

MILLER, *Senior Circuit Judge*.

DECISION

We *affirm* the decision of the United States District Court for the Northern District of California[1] granting Ricoh's motion for JNOV on the issue of breach of contract by Ricoh.[2]

OPINION

We are satisfied that there was no substantial evidence on which a jury could have based a verdict of breach of contract by Ricoh. Specifically, we do not agree with Norfin that there is evidence from which a reasonable jury could have concluded that Norfin had grounds for insecurity, which is required by Wash. Rev. Code § 62A.2-609(1) before a contracting party may demand assurances of performance. Norfin's argument that its failure to ship the prototype was reasonable because it feared Ricoh would misappropriate the technology is specious. A court cannot permit a party to impute baldly to another an illegal motive as a defense to its failure to perform a condition precedent to a contract. Moreover, if misappropriation had been Ricoh's purpose, Ricoh could have obtained the technology when performance of the contract had begun or when the patent on the technology issued.

By requesting a "more firm" manufacturing projection (*i.e.*, a larger order), Norfin demanded more than is permitted a seller under a requirements contract, which is not definite, and its

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[1] *Snellman d/b/a Norfin v. Ricoh Co.*, No. C-82-6188-WAI (SJ) (N.D. Cal. filed Jan. 22, 1985).

[2] The case before the district court included the issue of infringement by Ricoh of Norfin's patent as to which the jury found for Norfin and awarded damages. The court granted a new trial with respect to damages. It denied a new trial on the infringement issue.

refusal to ship the prototype collator was nothing less than an attempt to force Ricoh to renegotiate the contract.

Finally, as a party to a valid development contract, Ricoh had the right to purchase only goods for which it had contracted. Norfin does not explain how Ricoh was to be ensured that Norfin's collator performed in conformance with the contract specifications if it could not examine one before accepting those for which it had contracted.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

DONALD L. SNELLMAN, d/b/a NORFIN
500 First Avenue South
Seattle, Washington 98104

Plaintiff,

v.

RICOH COMPANY, LTD.
15-5, Minami-Aoyama 1-chome
Minato-ku, Tokyo 107, JAPAN

Defendant.

No. C-82-6188-WAI(SJ)

JUDGMENT

IT IS ORDERED AND ADJUDGED that plaintiff be awarded the sum of $453,000 (Four Hundred Fifty-Three Thousand Dollars) as a reasonable royalty for infringement of plaintiff's '254 patent; and

IT IS FURTHER ORDERED AND ADJUDGED that plaintiff be awarded the sum of $287,767 as prejudgment interest on $453,000 at the rate of 12% per annum, compounded quarterly, from the time of defendant's sales of the infringing device to the date of this judgment. On the basis of the foregoing damage and prejudgment interest awards,

IT IS ORDERED AND ADJUDGED that plaintiff be awarded the total sum of $740,767, on its claim for damages for patent infringement.

FOR THE COURT
William L. Whittaker, Clerk

Dated: 5/26/87

By /s/ James M. Waggener

United States Court of Appeals
for the Federal Circuit

OPINION ANNOUNCING JUDGMENT OF THE COURT

OPINION FILED AND JUDGMENT ENTERED: NOV 25 1988

The attached opinion announcing the judgment of the court in your case was filed today. The judgment was also entered pursuant to Rule 36.

Costs may be recoverable under Rule 39 or as the court may have directed in the opinion. A party entitled to costs is provided with a form for that purpose with this notice. Costs when taxed are payable to the party awarded its costs. If costs are awarded to the government, they should be paid to the Treasurer of the United States. Payment should be made to counsel for the party awarded costs or, if the party is not represented by counsel, to the party pro se. Costs should be paid promptly.

If the court also imposed monetary sanctions, they are payable to the opposing party unless the court's opinion provides otherwise. Sanctions should be paid in the same way as costs.

FRANCIS X. GINDHART
Clerk

United States Court of Appeals for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,

Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,

Defendant/Cross-Appellant,

James F. Davis, Howrey & Simon, of Washington, D.C., argued for plaintiff-appellant. *John Lockie* and *Karen Wuest*, Metzger & Shadyac, of Washington, D.C., were on the brief for plaintiff-appellant.

Gerald W. Griffin, Cooper & Dunham, of New York, New York, argued for defendant/cross-appellant. *Preston Moore* and *Robert D. Mullaney*, Morrison and Foerster, of San Francisco, California were on the brief for defendant/cross-appellant. Also on the brief were *Arthur I. Neustadt* and *Richard D. Kelly*, Oblon, Fisher, Spivak, McClelland and Maier, P.C., of Arlington, Virginia.

Appealed from: U.S. District Court for the Northern District of California

Judge Ingram

United States Court of Appeals for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,

Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,

Defendant/Cross-Appellant.

DECIDED: November 25, 1988

Before MARKEY, *Chief Judge*, FRIEDMAN, *Circuit Judge*, and BALDWIN, *Senior Circuit Judge*.

FRIEDMAN, *Circuit Judge*.

The questions in this case, on appeal and cross-appeal from the United States District Court for the Northern District of California, are whether the district court erroneously (1) denied a motion for judgment n.o.v. on the jury finding that the defendant Ricoh Co., Ltd. (Ricoh) infringed the appellant Norfin's patent, and (2) held, in connection with setting aside the jury award of damages and granting a new trial on that issue, that certain evidence relating to damages had been improperly admitted. We (1) affirm the denial of judgment n.o.v. on

infringement and (2) vacate the ruling on damages and remand for further proceedings on that issue.

I

The appellant Norfin, of which Mr. Snellman is the sole proprietor, manufactures and sells paper sorting, collating, and binding products used in photocopying and offset lithography. Mr. Snellman is co-inventor of U.S. Patent No. 3,414,254 (the '254 patent) for an improved paper sorter. The '254 paper sorter has fewer moving parts than most sorters, which makes it more reliable and cheaper to manufacture. The '254 patent has been commercially successful and has been the subject of previous litigation.

In a suit by Norfin against IBM, the '254 patent was held valid and infringed. *Norfin, Inc. v. International Business Machs. Corp.*, 453 F. Supp. 1072, 199 USPQ 57 (D. Colo. 1978), *aff'd*, 625 F.2d 357, 207 USPQ 737 (10th Cir. 1980). As a result of that suit, IBM paid Norfin a lump sum royalty of $20.5 million, which included a post-litigation license under the '254 patent. That amount was agreed to by the parties before the final decision of the court of appeals, in an agreement that dealt with the various possible outcomes of the litigation.

Norfin granted Ricoh a license under the '254 patent for one of the Ricoh copiers; Norfin ordinarily did not license its patents. When Norfin refused to license the '254 patent for use with other Ricoh copiers, Ricoh and Norfin then entered into a sales and purchase agreement under which Norfin would manufacture paper sorters for use with Ricoh's new mid-to-high speed copiers.

Ricoh's engineers visited Norfin a number of times and observed each phase of Norfin's development of the sorters. When Mr. Snellman decided to redesign the sorter prototype,

which would delay Ricoh's preparations for a trade show, Ricoh notified Norfin that it would rebuild its own prototypes for the trade show. Norfin did not object but requested that the prototype or drawings be sent to it.

Following Ricoh's successful demonstration of its copiers at the trade show, Norfin finished its prototype sorter and tested it with Ricoh's copiers. Ricoh engineers were present at the tests and photographed the Norfin prototype.

Ricoh continued to develop its own sorter. After receiving an opinion from counsel that the Ricoh sorter would not infringe the '254 patent, Ricoh in September 1980 implemented a plan to manufacture and market its own sorters.

Due to Norfin's delays in shipping a finished collator, Ricoh terminated the purchase agreement and fitted its copiers with its own collators.

After observing and inspecting Ricoh collators at a trade show in Germany, Norfin advised Ricoh that "authorization to manufacture this equipment and/or to show it has not been given by my company. To the contrary, those rights are exclusively the property of Norfin." After further correspondence, Norfin filed the present infringement suit against Ricoh.

The case was tried to a jury, which found that Ricoh had infringed the '254 patent and awarded damages of $12,000,000. The jury further found that Ricoh had breached its contract with Norfin and awarded contract damages of $2,900,000.

The district court granted JNOV, or alternatively a new trial, on the contract issue and on the issue of damages for infringement, and denied a new trial or JNOV on infringement. (We affirmed the JNOV on the contract issue in an earlier, unpublished opinion. *Snellman v. Ricoh Co., Ltd.,* No. 85-

2183, July 22, 1986.) The court ruled that certain evidence relating to damages had been improperly admitted, and concluded that "[t]he verdict of $12,000,000 constitutes a miscarriage of justice in the opinion of this court."

Both parties began preparing for a second trial on the issue of damages for patent infringement. During discovery, the court issued an order precluding Norfin from introducing certain evidence.

> Among the damage claim evidence identified by the plaintiff through discovery, the only damage calculation that complies with the Court's orders is plaintiff's calculation of a reasonable royalty on the basis of defendant's actual sales of infringing collators, to which a royalty rate of 10% was applied by plaintiff's expert. The royalty thus calculated by plaintiff's expert is $453,000.

The court barred Norfin from introducing the earlier IBM agreement or developing new damage estimates. It held that one of Norfin's calculations was

> legally invalid and inadmissible in that it [was] arrived at on the basis of the $20,500,000 settlement negotiated by the plaintiff in a prior lawsuit against IBM. Repeatedly, the court has informed the plaintiff that this settlement agreement cannot be the basis for a damage award in this case.
>
> There is no basis for permitting the plaintiff to attempt now to perform new damage calculations in an effort to generate new admissible evidence. The plaintiff has failed to meet four scheduled deadlines for provision of its damage claim information and the deposition of its designated expert – two of them set by Court Order. The

> plaintiff has known since January, 1985 that a retrial would occur on the issue of patent damages and has known since December, 1985 that the retrial would occur in June or July, 1986. Pursuant to Rules 16(f) and 37(b)(2)(B), the Court concludes that plaintiff should be precluded from offering any damage claim evidence other than that already disclosed to defendant.

As a result of these rulings, Norfin agreed to a judgment of $740,647 ($453,000 plus prejudgment interest), which merged with the earlier judgment that Ricoh had infringed the '254 patent. Both parties have appealed from this judgment. Ricoh raises the infringement issue on its cross-appeal, and Norfin raises the damages issue on its appeal. Norfin's appeal challenges the underlying predicate of the limitation of its damages to $740,647, namely the court's ruling that certain evidence relating to damages was improperly admitted and the court's setting aside the jury verdict on damages and ordering a new trial on that issue.

II

Ricoh alleges that the district court erred in denying its motion for judgment n.o.v. on patent infringement.

> Where, as here, the overall question of infringement was answered by a jury and the losing party's motion for JNOV was denied, an appellate court's review of the denial is limited. The appellate court is permitted to review only the sufficiency of the evidence, a question of law. Such a review must be conducted within a set of guidelines which include: (1) a consideration of all the evidence, (2) in a light most favorable to the non-moving party, (3) drawing all reasonable inferences favorable to that party, (4) without determining the credibility of the witnesses, and (5) without substituting

> the court's choice for that of the jury between conflicting elements in the evidence.
>
> To obtain a reversal, [Ricoh] (the moving party below) must persuade us that either (1) the jury's findings were not supported by substantial evidence or (2) those findings cannot support the legal conclusions which necessarily were drawn by the jury in forming its verdict. If, however, there was substantial evidence of such quality and weight that reasonable and fair-minded men in the exercise of impartial judgment could reasonably return a verdict for the non-moving party, then the denial of the JNOV was correct.

McGill Inc. v. John Zink Co., 736 F.2d 666, 672, 221 USPQ 944, 948 (Fed. Cir.), *cert. denied,* 469 U.S. 1037 (1984) (citations omitted).

The determination of infringement is a two-step process. First, the meaning of the claim alleged to have been infringed must be determined. Second, the alleged infringing device must be compared to the claims to determine whether the claims cover the device, either literally or under the doctrine of equivalents. *Mannesmann Demag Corp. v. Engineered Metal Prods. Co.*, 793 F.2d 1279, 1282, 230 USPQ 45, 46 (Fed. Cir. 1986).

The parties agree that the issue of infringement was limited to claim 1 of the '254 patent. Ricoh has failed to show that the jury's finding that the Ricoh device infringes claim 1 rests upon a misrepresentation of the claim or is not supported by substantial evidence. *McGill,* 736 F.2d at 672, 221 USPQ at 948.

Claim 1 reads:

[a] In combination with a receiver having an upright column of spaced shelves,

[b] substantially vertically moving sheet conveyor means opposite said receiver for conveying sheets in a substantially vertical course,

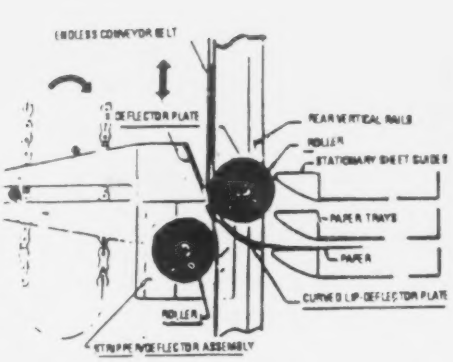
[c] a movable sheet deflector assembly operatively associated with said conveyor means,

[d] means mounting said deflector assembly for movement along said conveyor,

[e] means for positioning said deflector assembly at predetermined positions along said conveyor for deflecting moving sheets therefrom into selected ones of said shelves, and

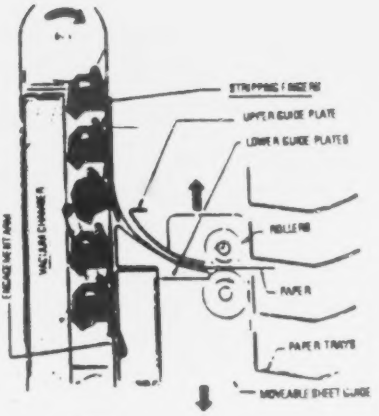
[f] sheet retaining means cooperating with said conveyor means for holding said moving sheet thereto for conveying to the position at which it is deflected.

Norfin's commercial embodiment of the patented invention and Ricoh's collator are shown below:



SNELLMAN PATENT

NO. 3,414,254



RICOH

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Both devices collate paper by deflecting it from its vertical path through a guide and into various bins. In prior art patents (McGalliard No. 2,661,209 and Pearson No. 3,273,882), each bin had its own adjacent "finger" to deflect the paper through its own guide and into the bin. In the '254 patent, however, the "sheet deflector assembly" moves along the vertical path and guides the sheets into the bins.

The basic dispute between the parties is over the meaning of the terms "movable sheet deflector assembly" and "means for positioning said deflector assembly at predetermined positions along said conveyor for deflecting moving sheets therefrom into selected ones of said shelves." The argument essentially is whether the "finger" that "deflect[s] moving sheets [from the conveyor]" must be a single element attached to the "sheet deflector assembly."

Norfin contends that the Ricoh collator includes "a movable sheet deflector assembly." Ricoh responds that "Norfin cannot sustain the position that an 'assembly' can mean a guide unit and trigger arm *plus* deflector fingers that have no permanent or continuous connection to the guide unit and trigger arm" (emphasis in original). In other words, Ricoh argues that because its "fingers" are not attached to its "moveable sheet guide unit," but rather are actuated by its engagement arm, its device does not infringe.

Although claim interpretation is a question of law, *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1270, 229 USPQ 805, 811 (Fed. Cir. 1986), *cert. denied*, 107 S. Ct. 875 (1987), expert testimony is admissible to explain the meaning of technical terms in the claims and to give an opinion on the ultimate question of infringement. *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1545, 3 USPQ2d 1412, 1417 (Fed. Cir. 1987); *McGill*, 736 F.2d at 675, 221 USPQ at 950. The jury heard expert testimony that claim 1 does not require that a single element must alter the path of the paper or that the element must be attached to the movable sheet deflector assembly.

Norfin's patent expert, Mr. Dunner, testified that

> what the Snellman claim 1 apparatus has is an element which moves vertically up and down, which has a deflecting function and which also serves to trigger the release of paper from a vertical conveyor belt. That is exactly what the Ricoh device has. Claim 1 is broad enough to cover that literally or otherwise.

Mr. Dunner further stated that "[a]s [the Ricoh device's] engagement arm hits these little fingers, the movement . . . serves to move these fingers . . . out right direct toward the bins." In other words, the engagement arm, which is a part of

the movable sheet guide, deflects the paper from the vertical conveyor belt by tripping each of the fingers.

Since the positioning element of the claim is in means-plus-function form, the specification must be looked to to determine the means claimed to perform the function. 35 U.S.C. § 112 (1982); *Palumbo v. Don-Joy Co.*, 762 F.2d 969, 975, 226 USPQ 5, 8 (Fed. Cir. 1985); *D.M.I., Inc. v. Deere & Co.*, 755 F.2d 1570, 1574, 225 USPQ 236, 238 (Fed. Cir. 1985). The specification states that "[a] further object is to provide an improved collator device which employs a *single deflector member* for rapidly guiding the sheets in succession to a predetermined group of receiver trays or sorting stations with provision for automatic control means for initially indexing the deflector member and for recycling the deflector member upon completion of a sorting cycle or run," and that "[d]uring [the paper's] downward course on the vertical portion of the conveyor, the sheets are deflected *by the distributor mechanism* onto the respective shelves of the receiver by means of *an* indexing deflector assembly 16, shown most clearly in FIGS. 2 and 3, which includes the deflector plate 17" (emphasis added).

Accepting Mr. Dunner's interpretation of the claim and his expert conclusion on infringement, as the jury obviously did, and in view of the language of the specification, there was substantial evidence to support the jury verdict of infringement. *McGill,* 736 F.2d at 675, 221 USPQ at 950-51.

III

A. If the only issues before us were the propriety of the district court's setting aside the jury verdict and ordering a new trial on damages, it is doubtful whether there would be an appealable final judgment. Only "[u]nder certain circumstances the appellate court may enquire into the action of the trial court

on a motion for a new trial." *Fairmount Glass Works v. Coal Co.*, 287 U.S. 474, at 482 (1932). We have held similarly, that an order for *de novo* consideration is not appealable. *Cabot Corp. v. U.S.*, 788 F.2d 1539 (Fed. Cir. 1986).

Here, however, during discovery for the new trial on damages, the district court limited the evidence that Norfin could introduce. As a result, Norfin could show damages of only $740,647. No factual dispute remained for trial, and Norfin properly acquiesced in the entry of judgment for that amount. Norfin thereby obtained a final appealable judgment. This is not a situation, as in remittitur, where the judge has entered judgment pursuant to an agreement by the plaintiff to reduce the jury verdict. *Donovan v. Penn Shipping Co.*, 429 U.S. 648 (1977). To the contrary, Norfin consistently maintained that it was entitled to the jury verdict, which it believed was based on properly admitted evidence.

Since Norfin did not agree with the court's evidentiary rulings, it may now appeal the final judgment, reflecting those rulings, that awarded it only $740,647. Norfin's acquiescence in that judgment was designed to obtain an early reviewable order and did not waive its objections to the court's evidentiary rulings. When a plaintiff cannot prevail under the evidence it has presented, it need not proceed to trial to preserve its appeal. As the Supreme Court has noted, a plaintiff may consent to a final judgment to enable it to appeal an otherwise interlocutory order:

> The plaintiffs did not consent to a judgment against them, but only that, if there was to be such a judgment, it should be final in form instead of interlocutory, so that they might come to this court without further delay.

Thomsen v. Cayser, 243 U.S. 66, at 83 (1916).

B. Setting aside the jury award of $12,000,000 as "a miscarriage of justice" and ordering a new trial on the damages issue, the district court ruled that (A) an exhibit showing the projected sale of the Ricoh collator and the testimony of Mr. Stone, Norfin's expert, regarding potential sales, "were irrelevant to the issue of damages and should have been either excluded or appropriately limited by admonition," and (B) "the admission of the IBM-Norfin agreement as a comparable license agreement was probably error in light of the unique circumstances surrounding the agreement."

1. In determining a reasonable royalty, the jury considered evidence that Ricoh expected and intended to manufacture and distribute 40,000 to 50,000 infringing machines in the United States. This evidence, consisting of a document projecting Ricoh's anticipated sale and expert testimony relating to those calculations, was relevant and proper in determining a reasonable royalty.

Ricoh did not object to an instruction that directed the jury to calculate damages "based upon or measured by the expectations of the parties at the time of the infringement." The jury justifiably could have calculated a lump sum royalty based on Ricoh's expected sales, even though the evidence relating to such sales was not limited to "the date of first infringement." *Cf. TWM Mfg. Co. v. Dura Corp.*, 789 F.2d 895, 899-900, 229 USPQ 525, 527-28 (Fed. Cir.), *cert. denied*, 107 S. Ct. 183 (1986) (district court did not abuse its discretion in using a pre-infringement, internal memorandum of projected profits to arrive at a reasonable royalty in part because the infringer "used the figures in the memorandum in deciding whether to manufacture and market the infringing device").

Ricoh apparently contends that because evidence of its sales forecasts projecting sales of only 3,150 units was introduced at trial and because that projection accorded with the forecast in the

Ricoh-Norfin "Sales and Purchase Agreement," this number correctly reflected Ricoh's anticipated sales. As we noted in *TWM*, however, "[t]he [finder of fact] thoroughly considered and weighed the Dura memorandum, and this court may not reweigh it. 'Determining the weight and credibility of the evidence is the special province of the trier of fact.'" *TWM*, 789 F.2d at 900 (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 856 (1982)). Here, the jury considered both sales forecasts and accepted that of Norfin. The jury was authorized to do so. *Inwood*, 456 U.S. at 856.

2. The district court did not explain why it concluded that "the admission of the IBM-Norfin agreement as a comparable license agreement was probably error," although it stated in subsequently limiting the evidence Norfin could introduce at the retrial on damages that "this settlement agreement cannot be the basis for a damage award in this case." Perhaps the district court was invoking the rule that license agreements which are "an offer to settle a 'claim' (patent infringement) which was then in dispute, both as to validity and amount," may be inadmissible under Fed. R. Evid. 408. *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551, 1556, 218 USPQ 481, 485 (Fed. Cir. 1983).

In this case, however, the Norfin-IBM agreement was not an attempt to resolve the dispute over infringement or to avoid litigation. *See, e.g., Rude v. Westcott*, 130 U.S. 152, 164 (1889) ("The avoidance of the risk and expense of litigation will always be a potential motive for a settlement."). Rather, the negotiated license would become effective only if the appellate litigation ultimately resulted in IBM's liability. The agreement properly was admitted into evidence, and the jury was justified in considering it in determining a reasonably royalty.

Although the jury awarded damages equal to more than four times Ricoh's total sales, we cannot say that the award was "a

miscarriage of justice" in view of the $20.5 million paid by IBM for a license under the '254 patent and Ricoh's sales forecast of 40,000 to 50,000 copiers. *See Radio Steel & Mfg. Co. v. MTD Prods., Inc.*, 788 F.2d 1554, 1557, 229 USPQ 431, 433 (Fed. Cir. 1986) (in upholding a royalty rate which exceeded actual profits the court stated: "a reasonable royalty, however, is based not on the infringer's profit, but on the royalty to which a willing licensor and a willing licensee would have agreed at the time of infringement").

C. The result of our ruling on the admissibility of the damages evidence is that the judgment of the district court awarding Norfin only $740,647 cannot stand. We shall vacate that judgment and remand the case to the district court for further proceedings on the damages issue. The district court has broad discretion in conducting those proceedings. Among other things, the court may conduct a new trial on damages in accordance with our rulings on the evidence admissible on that issue or may reinstate the jury verdict.

CONCLUSION

The denial of Ricoh's motion for judgment n.o.v. on the issue of patent infringement is affirmed, and to that extent the judgment of the district court is affirmed. The judgment of the district court is vacated insofar as it limited the damages to $740,647, and the case is remanded to that court for further

proceedings on the damages issue in accordance with this opinion.

COSTS

Costs to appellant Snellman.

AFFIRMED IN PART
AND
VACATED AND REMANDED IN PART

Note: This Order has not been prepared for publication in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,
Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,
Defendant/Cross-Appellant.

Before MARKEY, *Chief Judge,* FRIEDMAN, *Circuit Judge,* and BALDWIN, *Senior Judge.*

ORDER

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

FOR THE COURT

February 2, 1989

/s/ Francis X. Gindhart
Clerk

cc: John Lockie
Preston Moore

Note: This Order has not been prepared for publication in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

United States Court of Appeals
for the Federal Circuit

87-1434, -1435

DONALD L. SNELLMAN d/b/a NORFIN,
Plaintiff-Appellant,

v.

RICOH COMPANY, LTD.,
Defendant/Cross-Appellant.

ORDER

A suggestion for rehearing in banc having been filed in this case, and a response thereto having been invited by the court and filed,

UPON CONSIDERATION THEREOF, it is

ORDERED that the suggestion for rehearing in banc be, and the same is, declined.

Judge Nies would rehear the case in banc.

FOR THE COURT

March 6, 1989

/s/ Francis X. Gindhart
Clerk

cc: John Lockie
Preston Moore